

# House File 629 - Introduced

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BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO HF 511)

(SUCCESSOR TO HSB 166)

## A BILL FOR

- 1 An Act exempting certain individuals from the inheritance tax,
- 2 and including applicability provisions.
- 3 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

1 Section 1. Section 450.1, subsection 1, paragraph d, Code  
2 2013, is amended to read as follows:

3 *d. ~~"Real estate or real~~ "Real estate" or "real property"* for  
4 the purpose of appraisal under this chapter means real estate  
5 which is the land and appurtenances, including structures  
6 affixed thereto.

7 Sec. 2. Section 450.1, subsection 1, paragraph e, Code 2013,  
8 is amended by striking the paragraph.

9 Sec. 3. NEW SECTION. **450.1A Certain family relationships**  
10 **determined.**

11 For purposes of this chapter, a stepchild, step grandchild,  
12 or step great-grandchild is determined as follows:

13 1. A stepchild is the child of the spouse of the decedent,  
14 if the spouse was married to the decedent at the time of the  
15 decedent's death or the spouse died during that marriage.

16 2. A step grandchild is the child of the spouse of the  
17 decedent's child, if the spouse was married to the decedent's  
18 child at the time of the decedent's death or the spouse died  
19 during that marriage.

20 3. A step great-grandchild is a child of the spouse of  
21 the decedent's grandchild, if the spouse was married to the  
22 decedent's grandchild at the time of the decedent's death or  
23 the spouse died during that marriage.

24 Sec. 4. Section 450.7, subsection 1, paragraph a, Code 2013,  
25 is amended to read as follows:

26 *a.* The share of the estate passing to the surviving spouse,  
27 and parents, grandparents, great-grandparents, and other lineal  
28 ascendants, children including legally adopted children and  
29 biological children entitled to inherit under the laws of this  
30 state, stepchildren, and grandchildren, step grandchildren,  
31 great-grandchildren, step great-grandchildren, and other lineal  
32 descendants is excluded from taxation under this chapter.

33 Sec. 5. Section 450.9, Code 2013, is amended to read as  
34 follows:

35 **450.9 Individual exemptions.**

1 In computing the tax on the net estate, the entire  
2 amount of property, interest in property, and income  
3 passing to the surviving spouse, and parents, grandparents,  
4 great-grandparents, and other lineal ascendants, children  
5 including legally adopted children and biological children  
6 entitled to inherit under the laws of this state, stepchildren,  
7 ~~and grandchildren,~~ step grandchildren, great-grandchildren,  
8 step great-grandchildren, and other lineal descendants are  
9 exempt from tax.

10 Sec. 6. Section 450.10, subsection 1, Code 2013, is amended  
11 by striking the subsection and inserting in lieu thereof the  
12 following:

13 1. When the property or any interest in the property, or  
14 income from the property, taxable under the provisions of this  
15 chapter, passes to an individual not included in subsection 6,  
16 the rate of tax imposed under this chapter on the individual  
17 share so passing shall be ten percent for any amount in excess  
18 of two million dollars.

19 Sec. 7. Section 450.10, subsection 2, Code 2013, is amended  
20 by striking the subsection.

21 Sec. 8. Section 450.10, subsection 6, Code 2013, is amended  
22 to read as follows:

23 6. Property, interest in property, or income passing  
24 to the surviving spouse, and parents, grandparents,  
25 great-grandparents, and other lineal ascendants, children  
26 including legally adopted children and biological children  
27 entitled to inherit under the laws of this state, stepchildren,  
28 ~~and grandchildren,~~ step grandchildren, great-grandchildren,  
29 step great-grandchildren, and other lineal descendants, is not  
30 taxable under this section.

31 Sec. 9. APPLICABILITY. This Act applies to the estates of  
32 decedents dying on or after July 1, 2013.

#### 33 EXPLANATION

34 BACKGROUND — IMPOSITION OF INHERITANCE TAX. Code chapter  
35 450 imposes an inheritance tax on real estate and tangible

1 personal property owned by a decedent and located in this state  
 2 regardless of whether the decedent is domiciled in this state,  
 3 and intangible personal property owned by a decedent domiciled  
 4 in this state regardless of where the property is located (Code  
 5 section 450.2). The value of the estate is determined after  
 6 liabilities are subtracted from the estate's gross value (Code  
 7 section 450.12). No tax is due if the value of the estate of a  
 8 decedent is less than \$25,000 (Code section 450.4(1)). The tax  
 9 is imposed on beneficiaries taking by will or without a will  
 10 by intestate succession.

11 BACKGROUND — TAX EXEMPTIONS AND SCHEDULED TAX RATES. Code  
 12 chapter 450 exempts property passing to certain beneficiaries,  
 13 including the decedent's spouse, parent, grandparent,  
 14 great-grandparent, other lineal ascendant, children,  
 15 stepchildren, grandchildren, great-grandchildren, and other  
 16 lineal descendants (Code sections 450.9 and 450.10(6)). A  
 17 stepchild is defined to mean the child of an individual who was  
 18 married to the decedent at the time of the decedent's death  
 19 or the child of a person to whom the decedent was married  
 20 and who died during the marriage (Code section 450.1(1)).  
 21 For individuals, two tax rate schedules apply based on the  
 22 beneficiary's degree of relationship to the decedent. One  
 23 schedule applies to property passing to the decedent's brother  
 24 or sister or son-in-law or daughter-in-law. Under this  
 25 schedule, the tax rate increases from 5 percent for a share  
 26 amount equaling up to \$12,500 to 10 percent for that portion of  
 27 a share amount in excess of \$150,000 (Code section 450.10(1)).  
 28 Another schedule applies to property passing to all other  
 29 individuals, such as an uncle or aunt, nephew or niece, cousin,  
 30 or anyone else (e.g., a neighbor). Under this schedule, the  
 31 tax rate increases from 10 percent for a share amount up to  
 32 \$50,000 to 15 percent for that portion of a share amount in  
 33 excess of \$100,000 (Code section 450.10(2)).

34 BILL — EXEMPTION EXTENDED TO CERTAIN STEP FAMILY MEMBERS  
 35 AND REPLACEMENT OF RATE SCHEDULES WITH A SINGLE RATE. The

1 bill provides that the family exemption is extended to step  
2 grandchildren and step great-grandchildren. It defines a step  
3 grandchild and a step great-grandchild based on the definition  
4 of stepchild. The bill also replaces the two rate schedules  
5 with a single rate of 10 percent when an individual's share  
6 exceeds \$2 million.